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INTRODUCTION

The Michigan Department of Human Services (DHS) entered into three contracts for the LIHEAP Direct Payment Process. The contracts were with Detroit Edison Company and Michigan Consolidated Gas Company (DTE) #ADMIN 05-99050 for \$53,000,000, Consumers Energy Company (CEC) #ADMIN 05-99051 for \$26,000,000 and SEMCO Energy Gas Company (SEMCO) #ADMIN 05-99052 for \$5,000,000. The contracts covered the period from September 1, 2004 through September 30, 2005.

The contract required DTE, CEC, and SEMCO to submit to DHS a daily tape of customers in shutoff status. Shutoff status is defined as any residential heat or electric active account in threat of actual shutoff. The tapes submitted were not to include theft or illegal usage, business or non-residential accounts, or common meter situations. The tape match system made weekly payments (Energy Direct Payments) upon determination of eligibility by DHS.

Amendment #1 to the LIHEAP Direct Payment Process, effective November 15, 2004, allowed a process for direct payments for people living in homes where gas or electric service had been disconnected and restoration of service was needed (Restoration Payments). DTE and CEC were to send tapes of customers with gas and/or electric service that had been shutoff to DHS. DHS matched these tapes with active client records. DHS paid 75% of the outstanding balance for eligible customers directly to DTE up to a total of \$2,766,750.00 and to CEC up to a total of \$790,125.00.

DHS issued restoration payments to DTE for 2,873 DTE accounts totaling \$2,766,750.00 as of March 1, 2005.

DHS issued seven restoration payments totaling \$2,747.98 to CEC.

SCOPE

The Office of Internal Audit performed an audit of the Energy Direct Payments made by DHS to DTE, CEC, and SEMCO for the period November 1, 2004 through February 24, 2005. DHS paid DTE \$16,174,000.21 for 60,272 customer accounts, CEC \$1,921,576.52 for 11,071 customer accounts and SEMCO \$ 1,045,942.54 for 8,699 customer accounts during this period. Our audit consisted of examining a sample of the payments issued to DTE, CEC, and SEMCO.

We examined 245 payments for 244 clients totaling \$96,930.18 of the payments issued to DTE. This represented 0.6% of the total payments and 0.4% of the total dollars issued to DTE.

We examined 90 payments for 89 clients totaling \$29,209.86 of the payments issued to CEC. This represented 0.8% of the total payments and 1.5% of the total dollars issued to CEC.

We examined 111 payments for clients totaling \$13,715.56 of the payments issued to SEMCO. This represented 1.3% of the total payments and 1.3% of the total dollars issued to SEMCO.

We also reviewed the total population of payments for compliance with the terms of the Energy Direct payments contract and the contract amendment for Restoration payments.

EXECUTIVE SUMMARY

Our audit of the LIHEAP Direct Payment process disclosed that DTE, CEC, and SEMCO have been overpaid a combined total of \$466,818.72. The most significant overpayments were due to DTE submitting customer accounts within 30 days of a previously authorized energy direct or restoration payment (\$312,508.82), and CEC submitting customer accounts with the same arrearages twice (\$104,661.04).

DTE

Based on our audit DTE has been overpaid \$341,660.75. The overpayments were a result of DTE submitting customer accounts that had simultaneous billings on multiple accounts, had excessive energy billings, were for non-heat gas, or were based on estimated readings. DTE also submitted customer accounts for which DHS had no record of the service address, the DTE account was not in the name of a DHS client, and there were no energy charges to the DTE customer's account. DTE also failed to refund payments, submitted arrearages for the same customer account twice, submitted multiple accounts for the same time periods, and submitted accounts for Energy Direct payments and Restoration payments within 30 days of the other payment.

CEC

Based on our audit CEC has been overpaid \$117,024.46. This was the result of submitting customer accounts that had transfers from accounts that were not DHS clients, failure to refund payments, submitting accounts twice with the same arrearage and submitting accounts for payment within 30 days of a prior Energy Direct payment.

SEMCO

Based on our audit SEMCO has been overpaid \$8,133.51. This is due to submitting customer accounts that could not be verified with a DHS client address, simultaneous

energy billings, different client name, transfers between accounts that could not be verified with the address transferred from, failure to refund payments, and submitting customer accounts for payment within 30 days of a prior Energy Direct payment.

PROGRAM OFFICE RESPONSE

The management of the Adult and Family Services Administration has reviewed all findings and recommendations included in this report. The Acting Director for Family Support Services responded in a memorandum dated 11/8/06 that they are in general agreement with the report. He also indicated that the most significant findings have been addressed and recoupment has been occurring on an ongoing basis as warranted by case circumstances. In addition, he indicated that system changes and edits have been established to reduce the risk related to the major audit findings.

FINDINGS AND RECOMMENDATIONS

Sampled Population

DTE/SEMCO-Multiple Accounts with Simultaneous Energy Charges

1. DTE and SEMCO submitted customer accounts for DHS clients that had more than one customer account open and had energy charges for the same periods of time. A review of the service addresses with the addresses on file with ASSIST and the case record revealed that DHS did not have a record of the service address for the customer accounts that were submitted for payment. In one instance DTE transferred a portion of the DHS payment on a valid account to another customer account in the DHS client's name that was not used to determine the arrearage and was not in shut off status.

DTE was paid \$813.83 and SEMCO \$1,281.35 for the DHS clients that had more than one customer account active for the same period.

WE RECOMMEND the Office of Income Support recoup the \$813.83 paid to DTE and the \$1,281.35 paid to SEMCO for the customer accounts that incurred energy charges over the same period of time.

DTE/CEC-Customer Accounts for Non DHS Clients

2. DTE and CEC submitted customer accounts with energy charges incurred on accounts that were not in the name of the DHS client. The two customer accounts submitted by DTE had the case number of the DHS client; however the accounts were not in the name of the DHS clients. CEC submitted two customer accounts that were for a DHS client, but included energy charges from customer accounts that were not the DHS client's.

DTE was paid \$1,458.57 and CEC \$709.55 for the two customer accounts.

WE RECOMMEND the Office of Income Support recoup \$1,458.57 from DTE and \$709.55 from CEC for the customer accounts that were not established in the name of the DHS client.

DTE-Excessive Energy Charge

3. DTE submitted gas and electric arrearages of \$1,448.67 each, total of \$2,897.34, for a customer account that had been active for three months for electric (9/29/04) and two months (10/29/04) for gas. DHS authorized an Energy Direct payment of \$1100.00 on 1/4/05. The total energy charge to this account through 12/22/04 was

\$603.48 for gas only. A credit to this account for \$360.00 on 11/15/04 left a balance of \$243.48.

This account was not in shut off status and did not have an arrearage of \$2,897.34.

WE RECOMMEND the Office of Income Support recoup \$1,100.00 from DTE for the customer account that was not in shutoff status.

DTE-Non Heat Customer Accounts

4. DTE submitted three customer accounts with gas energy charges that were classified as non-heat on the customer statements. The Energy Direct contract provides for the payment of gas energy charges for heat purposes only. Non-heat electric was included in the contract for reimbursement. DHS paid DTE \$612.69 for the charges on these accounts.

WE RECOMMEND the Office of Income Support recoup the \$612.69 from DTE for the customer accounts identified as non-heat.

DTE/SEMCO-Nonverifiable Addresses

5. DTE submitted 10 and SEMCO submitted 2 customer accounts that did not have a service address that could be verified. When the service addresses did not match the current CIMS address, we verified the addresses on the statements for the client with ASSIST or by contacting the worker to review the case record for the service address reported by the energy provider. Thirteen of the customer accounts had service addresses that could not be verified with CIMS, ASSIST, or by case record documentation. DHS paid DTE \$11,369.94 and SEMCO \$202.35 for customer accounts that had service addresses that could not be verified.

WE RECOMMEND the Office of Income Support recoup \$11,369.94 from DTE and \$202.35 from SEMCO for the customer accounts with service addresses that could not be verified with the DHS address.

DTE-Estimated Energy Use

6. DTE submitted eight customer accounts that had the energy arrearage based on estimated meter readings. Subsequent adjustment by DTE to actual meter readings disclosed that one of the customer accounts was \$347.77 less than the estimated reading that the energy direct payment was based on.

WE RECOMMEND the Office of Program Support recoup \$347.77 from DTE for the energy direct payment based on an estimated meter reading.

DTE-Interruptible Service

7. DTE submitted a customer account that had energy charges classified as interruptible services. Interruptible services are heating and/or cooling that the customer signs up for and can be turned off by DTE during peak energy usage. Since the client signs up for the program, this type of service is not necessary to the client's well being.

DHS paid DTE \$1100.00 for this customer account.

WE RECOMMEND the Office of Income Support recoup \$1100.00 from DTE for the customer account with interruptible services..

SEMCO-Transfers and Customer Name

8. SEMCO submitted three customer accounts for which the arrearage was based on transfers from another account. We were unable to verify if amounts transferred were from customer accounts that were in the DHS clients' names. One other SEMCO customer account had a different last name for the client than the name reported on CIMS. Contact with the worker disclosed no case record documentation for the name on the SEMCO customer account.

DHS paid SEMCO \$656.39 for the transfer accounts and \$77.01 for the account that had the different name.

WE RECOMMEND the Office of Income Support recoup \$733.40 from SEMCO for the customer accounts that had transfers and a different last name.

DTE/CEC/SEMCO-Refundable Payments

9. DTE, CEC, and SEMCO did not always refund other payments as required by the Energy Direct contract. The Direct Energy contract states "In the event that customer or agency pays the shutoff amount prior to the DHS automated payment, the grantee (DTE, CEC, SEMCO) will refund any resulting credit of the automated payment to DHS". A review of the DTE customer account statements for other payments that were equal to or greater than the energy direct payment disclosed 19 payments totaling \$3,962.47 received within 2 to 14 days prior to the date the energy direct payment was recorded on the customer account. CEC recorded 16 payments totaling \$2,591.37 received 2 to 12 days prior to the date the energy direct payments were posted to the customer accounts. SEMCO recorded 14 payments totaling \$1,345.07 received 3 to 12 days prior to the date the energy direct payments were posted to the customer accounts.

WE RECOMMEND the Office of Income Support recoup \$3,962.47 from DTE, \$2,591.37 from CEC, and \$1,345.07 from SEMCO for the other payments applied to the customer accounts as required by the Energy Direct contract.

Total Population

DTE/CEC-Duplicate Payments

10. DTE and CEC submitted arrearages on customer accounts that were the same as payments that had been previously authorized by DHS. The customer accounts were the same account number and arrearage and were authorized for payment by DHS within eight days of the previous energy direct payment. DHS paid DTE \$476.04 for two accounts and CEC \$104,661.04 for 746 accounts.

WE RECOMMEND the Office of Program support recoup \$476.04 from DTE, and \$104,661.04 from CEC for the arrearages on customer accounts that were submitted and authorized twice.

CEC/SEMCO-Payments Authorized Within Thirty Days

11. CEC and SEMCO submitted customer accounts for an energy direct payment within thirty days of a previously authorized DHS payment. DHS issued payments totaling \$4,571.34 to SEMCO and \$9,062.50 to CEC. The SEMCO Energy Direct contract states “Notification of payment by DHS to the grantee will guarantee no shutoff for a minimum of 30 days”. The CEC Energy Direct contract states “Notification of payment by DHS of the account arrearage amount will result in a guarantee by grantee that the customer will not be shutoff for a minimum of thirty (30) days”.

WE RECOMMEND the Office of Income Support recoup \$4,571.34 from SEMCO, and \$9,062.50 from CEC for the payments on customer accounts submitted within 30 days of a previously authorized energy direct payment.

DTE-Payments for Customers with Multiple Accounts

12. DTE submitted 86 account arrearages on 31 accounts for 19 customers that were authorized and paid by DHS totaling \$15,011.42. Each customer had arrearages for 2 or 3 different accounts and had 4, 5, or 6 arrearages that were paid by DHS. Seventeen DTE customers had payments for two separate DTE accounts authorized by DHS on the same day. A review of these accounts disclosed that 47 of the 86 payments for the 19 DTE customers totaling \$7,910.62 were inappropriate. These payments are disallowed due to overlapping energy charges between the accounts, address differences, non-DHS clients, no billing history on the DTE customer website, no threat of a shutoff, and non-heat energy usage. Fifteen of the payments were disallowed for more than one of the reasons stated.

WE RECOMMEND the Office of Program support recoup \$7,910.62 from DTE for the energy direct payments authorized for the DTE customers with multiple accounts.

DTE-Energy Direct and Restoration Payments

13. DTE submitted customer accounts for payment under the Energy Direct contract and the Restoration contract amendment.

The Energy Direct payment contract states “the Grantee (DTE) will supply DHS a daily tape of customers in shutoff status. Shutoff status is defined as any residential heat or electric active account in threat of shutoff. Payment by DHS will guarantee no shutoff for a minimum thirty days.”

Amendment #1 states “This amendment will also allow a process for direct payments for people living in homes where gas or electric service has been disconnected and restoration of service is needed. The Grantee (DTE) will send tapes of customers with gas and/or electric service that has been shutoff to FIA (DHS). The Grantee (DTE) will guarantee no shutoff for a minimum of 30 days”.

For the audit period of 11/1/04-2/24/05 DHS issued 263 energy direct payments totaling \$187,540.43 and 263 restoration payments totaling \$440,916.99 on 258 client accounts. Based upon the contract definition of an energy direct payment and a restoration payment, a DTE customer account for an active DHS client cannot receive both an energy direct and restoration payment within 30 days since an energy direct payment is for an active account in threat of a shutoff and the restoration payment is for an account that has been shutoff and needs to be restored. Our review disclosed 54 energy direct payments totaling \$41,844.68 authorized within 30 days after a restoration payment was authorized for the account. There were 161 restoration payments totaling \$270,664.14 authorized within 30 days after an energy direct payment was authorized for the account.

WE RECOMMEND the Office of Income Support recoup the energy direct payments of \$41,844.68 and restoration payments of \$270,664.14 from DTE for the customer accounts receiving an energy direct payment or restoration payment within 30 days.